THE G-20 AND THE EUROZONE CRISIS

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(Music.)

MR.   : You're listening to a podcast from the Carnegie Endowment for International Peace.

MOISÉS NAÍM: Welcome and good afternoon. I'm Moisés Naím and I'm a senior associate at the Carnegie Endowment for International Peace in its International Economics Program.

It is my pleasure to welcome this afternoon Lael Brainard, an old colleague, an old friend who is now the undersecretary for international affairs at the U.S. Treasury. Dr. Brainard is an academic – and was an academic and a thinker and a scholar, but has ample policy experience. During the Clinton administration, she was also at the center of an international financial crisis; she was an important – played an important role during the Asian financial crisis. And now again, at the U.S. Treasury, she is facing and playing a very important role in shaping policy in response to the global economic crisis, and more – most recently, in dealing with the European crisis.

She just returned from Cannes when she participated in the G-20, and that is part of the conversation this afternoon. Dr. Brainard will give us some short introductory remarks, and then we will open it up to an exchange and conversation with you all. Welcome and thank you very much for being with us.

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LAEL BRAINARD: Well, thank you, Moisés. It's a pleasure to be here with you and to see many friends in the audience. I wanted to start and give you a little recap on Cannes, and I'd be happy to chat on whatever you're interested in.

I would say we saw a quiet, subtle, perhaps, but profound shift at the G-20 summit in Cannes, back to a unified focus on safeguarding the global recovery as the central priority today. We can see that shift articulated in the action plan that was released, and we expect to see it in policy steps taken by individual countries in coming weeks and months. Leaders recognize that we are, again, facing serious risks to global growth.

But the situation is, in many respects, fundamentally different than the one we tackled at the height of the financial crisis two years ago. With numbers of the G-20 now having different degrees of policy space, both monetary and fiscal, and facing differentiated challenges, we're seeking complementarity among differentiated national responses as opposed to a unified response.

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So the Cannes summit was not and could not have been like the London summit of 2009, where the discussion was centered on the necessity for immediate and across-the-board global stimulus. But the focal point of Cannes, like London, was squarely on growth and job creation with the underpinnings, the requisite underpinnings of a return to financial stability. There are no one-size-fits-all solutions in the present circumstances, but important progress was made on a set of steps and tools that will strengthen the recovery and fuel growth over time.

Of course, the financial crisis in Europe remains the central challenge to the global economy, which is why that was the central topic of discussion on the summit. The world knows that an effective solution for Europe is key to

maintaining growth. And over the past month, European leaders have announced a comprehensive plan to deal with the crisis. They've announced a plan to build a firewall to ensure that countries with sound policies have access to adequate and affordable financing as they implement their reforms. They've also declared their determination to reinforce the capital cushions in the banking system, and to ensure access to abundant funding to retain the confidence of depositors and investors, even as they work to ensure Greece is on a sustainable footing and to ensure fundamental governance reform moves forward.

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In Cannes, President Obama, Secretary Geithner engaged their counterparts in an effort to help European leaders deliver on these commitments as rapidly and convincingly as possible. The task now is for Europe to accelerate the elaboration and implementation of the firewall and other elements of that comprehensive plan in ways that are grounded in the political and institutional realities of the euro area. Euro area commitment and euro area resources are going to have to be at the center in order for any solution to be credible and effective. The United States and our international partners will want to stand behind Europe as they move to put in place that decisive solution, but Europe has to move first.

Here at home, we continue to remain intensely focused on creating jobs and growing the economy, and we recognize that America's growth is also important to amplify and lift global growth overall. Our recovery remains fragile and still too vulnerable to events beyond our shores. Pro-growth policies in the near term and meaningful deficit reduction in the medium term provide the best insurance policy to protect the U.S. recovery from further risks from global markets.

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And with demand in advanced economies expected to remain weak, the emerging markets have a vital role to play in strengthening global growth by pivoting, in many cases, to more domestic demand-led growth. And this was also recognized in Cannes. China and other countries with large surpluses and export-oriented economies agreed to take additional steps to support growth and strengthen domestic demand.

And for the first time since the G-20 summit in Toronto, countries including Germany and Canada as well as China agreed to allow automated – automatic stabilizers to support their economic recovery and introduce additional discretionary measures as needed. Again, while this was a understated set of commitments at Cannes, they will be vital to the resolution of the central growth role challenge.

China played a constructive role at the summit. China memorialized their determination to increase the flexibility of their currency. This is something we've sought for some time, and it will be critical to boosting growth. They also recognized the critical role of the exchange rate in promoting more domestic demand-led growth, and they signaled their commitment over the medium term to a slower pace of foreign exchange accumulation and to avoid persistent exchange rate misalignment.

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We also saw some important outcomes on financial reform, which I'll just summarize very briefly. You know, as we are moving here at home to enact ambitious financial reforms through the Dodd-Frank Act, we're also moving in lockstep on key conforming reform commitments in the FSB and the G-20. The G-20 endorsed, just a year ago, in November 2010, new global capital and liquidity standards for banks. And this year, a year later, it adopted higher capital buffers for large banks so that they can better withstand future shocks and pose less of a risk to the

system, alongside a new international standard for resolution regimes so that the largest, most interconnected cross-border firms can be resolved without risk of severe disruption or taxpayer loss. And we secured agreement on two important new initiatives that will be very important for reform of the capital markets: first, to establish global standards for margins on uncleared derivatives, and thereby encourage greater standardization and clearing; and second, to establish a global system to uniquely identify parties to financial transactions – both of which will be very important to increasing transparency and addressing risks in the system.

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And finally, I just want to mention, importantly, there was strong recognition and support for the need for sustained development funding and support for the poorest around the world, particularly in the Horn of Africa. Leaders discussed the need to strengthen food security, make sure that critical infrastructure can move forward in the poorest of countries so that they can move to the next level, and to maintain our focus on the need to foster growth in the developing world.

At the G-20, at APEC, which the U.S. begins hosting today, and via our bilateral channels, these issues, which are being conducted with foreign leaders, we think are vitally important for current growth and the future vitality of the United States. As President Obama said in Cannes, the G-20 mirrors our own efforts back at home, meaning, how do we boost growth? How do we shrink our deficits in a way that does not slow the recovery? And how we do ensure that our workers are getting the skills, the jobs, the training they need to continue to compete and to continue providing for their families into the future? It all comes back to that central imperative of growth.

So with that, let me just put it back to you – (inaudible).

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MR. NAÍM: Thank you. Thank you very much.

As you were holding the G-20, there was the issue of the referendum in Greece. And then, immediately after that, there was a new government being formed in Greece. And yesterday, Prime Minister Berlusconi announced his resignation. So these are two important players. Greece and Italy are central to dealing with the European crisis. And they are in transition in government. So that leaves the rest of the world without interlocutors in these two very important countries.

So could you comment on how to manage that transition? That transition can be very complicated, as it can take a while, while – and markets are not waiting. I think, as we speak, Italian spreads are just shooting up and creating all sorts of new difficulties.

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MS. BRAINARD: Well, what's, I think, very important – in the case of Italy, Italy has a very strong fiscal reform program. And there is parliamentary support for that fiscal reform program, and they are moving forward on it.

What, I think, was recognized in Cannes is that the markets need to have confidence that they are implementing on that program. And one of the reasons I think they decided to invite the IMF to work with them to provide quarterly assessments – public assessments – is to help markets gain greater confidence that those fiscal plans – again, very strong fiscal plans requiring tough choices which their parliaments support – is to provide assurances

that those are going to be implemented. And so that was part of the rationale. And we'll – I think we will see that starting to work over time.

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Now, of course, you know, it's going to be very important during the transition in Italy that they do move forward very strongly on the fiscal reforms. Also, on the structural reforms, Italy needs to grow in order for this all to work. And it's also important that there be a broader context of Europe moving forward decisively and rapidly on the broader comprehensive plan, because I think those elements together are going to give the markets the confidence they need that Italy is going to be able to put in place those reforms which will enable it to continue accessing markets, accessing funding at affordable rates. So that's why this whole set of measures are still the centerpoint and why European leaders' determination to move forward with them is so important to markets.

MR. NAÍM: Another important player, and it's becoming increasingly so, is IMF. And there are two anxieties about the IMF. First, is that its balance sheet has now been too compromised, overly compromised with its contributions to try to deal with the European crisis. And the other is, wouldn't the IMF not need more funds? Will it have enough firepower to play the role that it may be asked to play?

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MS. BRAINARD: Well, we strongly, you know, as the – as the largest shareholder of the IMF, we strongly support the IMF having and continuing to have a very important role in helping our European partners resolve this crisis rapidly and decisively.

I think the IMF is playing a very important role and can play an even more important role in terms of bringing its credibility and its technical assistance to bear as countries in the euro area move forward on these challenging fiscal reform programs, and, of course, challenging structural reforms as well. So they'll continue to play that role.

And, as I just mentioned, in Italy they will start to play a more important role in providing that transparency and that credibility. Their resources have also been brought to bear in Greece, Ireland and Portugal in a burden-sharing arrangement, with the euro area taking the larger share for appropriate reasons.

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With regard to IMF resources, I think it's just important to recognize that they currently have uncommitted resources four times greater than the resources that they had going into London. And so one of the very important things leaders did in London was to massively resource the IMF to equip it for precisely the challenges that we're seeing on the global stage today. So they're well resourced. They have ample capacity. They have about $390 billion worth of uncommitted capacity that they can bring to bear. And, of course, we're very committed to making sure they have that capacity.

But they are going to be the second line of defense in Europe. What's most important in Europe for the markets, I think, and for credibility is to see the euro area, which has substantial resources, bring its resources to bear – mobilize those resources.

MR. NAÍM: Thank you. Invite your questions. And you know the drill. Please let us know who you are and your institution or affiliation, and please be brief. Sir.

Q: Thank you. Ian Talley, Dow Jones.

You say that Europe should resolve its debt strategy within its political institutional realities. Do you think that the ECB's mandate as it's currently given – to target unemployment and price stability – gives it a mandate to increase its support of Italy within the political and institutional realities of existing – existing now? And secondly, would an IMF loan program, which would have stronger conditionality than just monitoring, give an EFSF program to Italy greater credibility?

MS. BRAINARD: So just with regard to the European Central Bank, European Central Bank obviously has an important role to play, and is playing an important role today. It is one of the few pan-Europe euro area institutions. And, as such, as you know, it has already provided very important liquidity facilities that are making sure that the euro area banking system has unequivocal access to liquidity and retains the confidence of its depositors and its investors. And, of course, through their securities market purchase program, they have also been playing an important role, as well as through the more traditional mechanisms of monetary policy. So we think the ECB has an important role to play.

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The Fed, as you know, was central in navigating the way through and restoring confidence in the U.S. at the height of our financial crisis. The Fed was a very important partner with the fiscal authorities, with the administration and with the Treasury, and played a central role here. And so of course the ECB can and should play a central role in the European crisis response as well.

With regard to the nature of the IMF involvement and the nature of EFSF involvement, I think the most important thing right now is that Italy moves forward on its fiscal plan, which is strong, which is – requires tough decisions to be made on implementation, but which is strong, and moves forward on structural reform. The IMF can play and the commission will also play an important role in verifying that implementation is actually happening and that reforms are moving forward. And those are most immediately important for restoring market confidence.

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In conjunction with that and complementary to it, the European leaders have said, as a central part of their comprehensive plan, it is important to have a firewall. We strongly believe that. We saw it in our crisis. It is – we've seen it in many crises in emerging markets. It is very important to have a firewall with overwhelming force to calm the markets and to restore market functioning and market confidence. And so we very much support the commitment that European leaders have made to move forward very quickly on implementing that commitment.

MR. NAÍM: Sir.

Q: Yes. My name is Mark Botsford, from Botsford Global. I wanted – I understand that you were present in the meeting between President Obama and President Fernandez de Kirchner in Cannes, and I was wondering if you felt that she understood what was required of the country to fully re-enter the international financial community. And I was wondering if you felt that there is a bit of concern about how Europeans view the way the – Argentina handled its default compared to the way Uruguay handled their – their debt issue. Thank you.

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MS. BRAINARD: When the president – President Obama met with President Kirchner, there was a discussion, in particular about the importance of Argentina honoring its international obligations, being a member in good standing of the IMF, honoring its settlements, for instance, in international court for settlements, and moving forward on Paris Club. So those things were very much on the table. They're part of the discussion and, you know, of course, for us, these are important areas that we would like to see progress on in the days ahead.

Q: Yes, thank you. Jo Marie Griesgraber, New Rules for Global Finance. Nice to see you there, Lael. Congratulations.

I wanted to ask you questions about the IMF. It has new responsibilities in the area of finance and now in structural reform. Finance was quite new for the IMF, which used to be exclusively macroeconomic policies, and the structural was the World Bank, and now the IMF is being given all three of these functions in the European context.

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There's also been a – if you will, a kind of a reluctance on the part of developing countries to give – the emerging market countries to give money to the Europeans except through the IMF. Will they use that as leverage to change the quota formula to reduce the European representation and expand their own representation in the quota review of next year?

MS. BRAINARD: So on – it's good to see you – on this issue of the surveillance and responsibilities of the IMF, you know, I think we saw in the crisis the rationale. There's so much interplay between financial market functioning and macroeconomic stability that you need to be able to see inside the financial system in order to fully understand the risks on the macroeconomic side. And there is, you know, a burgeoning set of work on macroprudential tools that are essentially, you know, prudential tools that have macroeconomic rationales and consequences.

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But the IMF, as it moves forward on this, will work in partnership with other bodies that have greater competence and depth in these areas. So for instance, on financial systems, on the work that the IMF has been doing for some time now through their (FSA ?) and through the ROSCs process is done in conjunction with the FSB, the Financial Stability Board. And, in fact, in Cannes, we gave that body greater standing. And they will work alongside, you know, we in the G-20. And, of course, the regulatory and supervisory bodies are stepping up for more consistent regulatory regimes around the world to reduce some of the risks that we saw cropping up through regulatory arbitrage. And so these bodies are going to need to be able to work together to make sure that countries are actually implementing on their commitments.

With regard – sorry, just on the resources point, you know, it's, I think, been a longstanding position of many emerging and developing countries that they would like to expand their representation in the IMF, and we took a very important step forward in Seoul on that front with a big shift in share, you know, which we, in fact, originally foreshadowed and agreed at Pittsburgh. And it was very much because the president thought it's important to materially show that these institutions are dynamic and able to evolve as the global economy evolves. And I think we accomplished a big step in that direction (in) Seoul, and it'll continue to be dynamic.

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MR. NAÍM: Let me ask you about – continuing with, on the same vein, about financial – taxes on financial transactions – that was another conversation in Cannes, and we know what the French – European proposal on that is, and – of the U.S. (is ?), that favors taxes on – a different system that stresses taxes on banks' assets. So it's a tax asset versus a transaction. Where do we stand on that? What happened?

MS. BRAINARD: So – I mean, I think – you know, it's important to say, just at the outset, that we're – you know, we very much think that the financial sector needs to make a fair contribution, and that whatever kind of system of taxation we put in place needs to be a smart system of taxation that provides disincentives for the kind of risky behavior that led to the crisis.

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So, you know, that's very much where we start in terms of our perspective. And it's also important to say that, you know, this discussion takes place in a broader context where we've already put in place fundamental changes to our financial system, really, that we haven't seen since the Great Depression. You know, if you look at the stress test that we undertook, and the requirement that the institutions actually meet capital targets – not capital ratios, but capital targets – they've now doubled their capital ratios. That is a very significant shift. And so it's in that broader context, I think, that it's important to see this.

As you said, the president – we studied this issue for some period of time. In fact, we asked the IMF to study the issue and they came back with a very similar answer to our own analysis, which is that it was more efficient to tax the balance sheet of the largest institutions. That financial transactions tax instead took the burden off the largest financial institutions, who are the ones that, you know, undertook the risky behavior and brought us the crisis, and puts it instead on the retail investor. That a financial – by taxing the balance sheets of the largest financial institutions you much better avoid both geographic evasion and also the kind of shifting of the form of transactions that allows them to evade taxes. And as a result, you get a much more efficient taxation.

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Now, where we left it, I think, in Cannes was a general agreement around the room that it was OK for different countries to pursue slightly different models. And the euro area has subsequently met and had a discussion about this at the euro group in ECOFIN. And so we'll see how they move on this front. But the president remains very committed to moving forward on the financial crisis responsibility fee.

MR. NAÍM: Over here.

Q: Judd Harry (sp), a documentary filmmaker. With respect to the firewall that you mentioned, it seems to me that there is still a lot of resistance to funding a larger IMF facility. And 390 billion (dollars) seems to me to be a drop in the bucket. The Brits, for example, have been very adamantly opposed to that. And the Germans are still adamantly opposed to expanding the ECB's participation in the bond market. So it's unclear to me where this firewall is going to come from. My question to you is, did you detect any kind of sympathy for a kind of a last-stand strategy, where the northern tier would break away and devil take the hindmost?

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MS. BRAINARD: What we heard in Cannes is what we have heard very consistently, and I think what you hear, which is that euro area leaders have pledged to do whatever it takes to continue to defend the euro area. The firewall that I was referencing – the requisite firewall is really a euro area firewall. Again, this is a group of countries

that combined have that capacity. It is simply a question of how they mobilize the resources. But there is no question in anybody's minds, including the market's minds, that they have the resources and they need to show how they're going to mobilize those resources to defend the euro area.

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They said they're going to do it. They've put some ideas on the table. And they now need to move forward and actually elaborate the details and then implement. And that will be, for the markets, viewed as the kind of credible firewall. The IMF is important – again, huge capacity from a technical point of view – will come in in partnership in certain cases, as they have in Greece, Ireland and Portugal, in a burden-sharing arrangement as the lesser partner in terms of resources. But again, will do so in support of the primary firewall, which really comes from the euro area.

MR. NAÍM: Uri Dadush.

Q: Yes, thank you. Uri Dadush of the Carnegie Endowment, welcome. On this question, the size of the periphery debt of – in Europe is equal to about half of the GDP of the core countries – Germany and France, assuming that France stays healthy. OK, because a large part of the EFSF is backed by countries that themselves are in trouble. By way of comparison, the subprime crisis in this country – the actual subprime sector – was about 7 to 10 percent of U.S. GDP. So are you really convinced that the core, Germany and France, is really big enough to support a problem like Italy and the rest of the periphery countries?

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MS. BRAINARD: Yeah, I think, you know, if you look at the euro area in a consolidated basis, their statistics look pretty good, as they have pointed out, in terms of their overall relative balance, manageable levels of sovereign indebtedness. And so, you know, for the euro area the real challenge is using the institutional foundations that they start with and, you know, being able to adapt them to challenges that they – that they, you know, have to evolve to be able to address.

And we have seen already tremendous institutional adaptation. The EFSF itself, the ESM that is coming down the line – I mean, there have been really quite remarkable transformations in euro area governance. There have been agreements on what they refer to as the six pack in terms of how they're going to undertake surveillance of fiscal and structural reforms, and what kinds of consequences there will be for countries not moving forward on them.

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So we're seeing a lot of institutional evolution. But again, you have a monetary union that still has independent fiscal authorities. And so trying to square that circle in the middle of a crisis is of course challenging. But at the end of the day, what stands behind that is that steadfast commitment of the leaders to do what it takes to defend the euro area, and the very strong capacity of the ECB.

MR. NAÍM: Yes, sir. Over here.

Q: I'm Randy Henning at American University and the Peterson Institute. I know that preparing the G-20 has taken a lot of work. And I congratulate you on completing the summit process. I wanted to follow up though with questions about how we want to use the IMF to contribute to the resolution of the European problem. And you

talked about the adequacy of resources – or at least a lot of uncommitted resources in the Fund. But I wanted to ask you a little bit about the particular facility or mechanism by which you see the Fund contributing.

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The G-20 statement talks about a precautionary liquidity line and a second facility for emergency purposes. If another large country of the euro area needs help, and the IMF is to contribute, do you see the IMF contributing through one of these new facilities or through a regular standby arrangement? Could you expand on Treasury's thinking on this?

MS. BRAINARD: Well, I think what's important to recognize is the work that is under way at the Fund to create new precautionary facilities predated Cannes, and really predated the – some of the sovereign stresses that we've seen in Europe, and was a major emphasis, in fact, coming out of the 2009 crisis for some of the emerging markets. And so there too, you know, there's been really quite a lot of, we think, very welcome institutional evolution with the IMF, with our strong support, creating a much more robust toolkit to allow it to provide financing to countries on a precautionary basis, to provide precautionary facilities such that countries don't actually need to draw them because simply by virtue of having access to those precautionary facilities the market confidence returns.

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And so, you know, you'll recall at London it was the first commitment to use the flexible credit line. This is for the strongest performing countries who really don't need conditionality. And as you will remember, it was Mexico that was the first to avail itself of the FCL. Poland, Colombia have done so subsequently. And in all three cases, they've done so in a way that has reinforced market confidence. And they haven't actually drawn on these facilities.

In Seoul, there was an additional facility, the precautionary credit line, that was added to that arsenal. And what we saw in Cannes was trying to ensure that the precautionary credit line would be available in a more swap-like form to countries for short-term balance-of-payments difficulties. And this was – you know, again, this was really inspired by the Korean presidency, by their own experiences. And we think that these new precautionary facilities will be useful to a wide range of countries who have, in the past, experienced sudden stops and reversals in capital flows. And this provides different ways to access liquidity for precautionary purposes.

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MR. NAÍM: I think the gentleman over there, then I'll go with you.

Q: Thank you. Greg Robb from MarketWatch.com. I want to bring you back to the United States for a second. The U.S. trade deficit has been pretty stubbornly wide, despite the slow growth we've experienced in the last year. I was wondering if you're disappointed with this pace of, you know, the trade balance and the pace of global rebalancing that you've talked about. Is it too slow in your mind and is there anything you want to do to kind of spur it forward?

MS. BRAINARD: Well, I would say a few things on that front. First I would just take a –you know, a look at U.S. export performance – very strong, and stronger, more central to this recovery than we've seen previously. Exports have been growing four times faster than the domestic economy. They've been a very important contributor to the recovery. And, you know, exports to some emerging markets have been particularly important – exports to China for instance have grown twice as fast as exports to the rest of the world.

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Why is that important? Because those are the markets of the future. Those are the markets where we see the big growth opportunities. As I said, as they rebalance, as they unleash their domestic consumers, we think U.S. businesses, workers, services have tremendous products and services to offer. It's also vitally important to the president's goal of doubling exports in five years. And, you know, one of the key things that we went into the Cannes summit, which I think was a big plus for us, was, you know, we moved forward on these free trade agreements – very important.

And, you know, the president is on – will shortly be on his way out to APEC where, you know, I think he will again articulate just how important our exports to this dynamic region are now and will be into the future for our growth path. And, you know, that's why conversations at APEC will be so important, and conversations on the Trans-Pacific Partnership, where we're really working with those countries in the region that are most committed to the strongest disciplines on intellectual property, on market access. Those countries are working with us to put together one of the highest quality trade agreements. And then hopefully we'll pull more countries to that high level of standards over time.

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MR. NAÍM: Right here, please.

Q: Thank you. Ernie Preeg, Manufacturers Alliance. Sort of a follow-on, it's about the manufacturing sector, not surprisingly. And unfortunately, the – it's (now ?) the biggest sector of trade, but whereas our exports have been going up, our imports are going up a lot faster. We had the huge increase in the deficit last year – this year by $50 billion increased; that's several hundred thousand jobs lost. China, on the other hand, is going the other direction. Their surplus is going up a hundred billion (dollars) this year – even faster than last year.

So that brings me to my question of – about exchange rate, the Chinese exchange rate, but also obligations in the IMF and the World Trade Organization, because in the IMF Article IV, as most people know, you're not supposed to manipulate your currency to gain an unfair competitive advantage to trade. And in the WTO you've got Article XIV that says members should not take exchange rate actions that frustrate reciprocal access to markets.

And yet, China – it seems to me pretty straightforward – they've repudiated their obligations in the IMF and the World Trade Organization by saying they have complete sovereignty over exchange rate policy. That's repudiation of your limits on sovereignty. And I've even seen a couple comments out of the administration that you support their sovereignty claim. So my question is, aren't they repudiating their IMF and WTO claims on exchange rate policy and shouldn't we not be supportive of that?

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MS. BRAINARD: I don't know what statements on the part of the administration you're referring to, but let me just state –

Q: Secretary Geithner said – (inaudible).

MS. BRAINARD: Let me just state our policy, which is since day one, we have been very focused on working with China to resume and accelerate flexibility of its exchange rate. We think this is critically important. We think it's critically important to achieving a fairer and more balanced relationship – economic relationship with China. We

think it's very important to help with global rebalancing, unlocking other moves on exchange rates in the region. And we think, frankly, it's extremely important for China's own goals of moving to a more sustainable growth strategy, one based on domestic consumers, moving away from what is increasingly becoming an outdated growth strategy based on massive investment and excessive reliance on exports to advanced economies.

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We have actually seen some progress. China has moved. They have moved about 7 1/2 percent in nominal terms since June of 2010. And that amounts to about 10 percent in real bilateral terms because of the much greater inflation rate in China. If you look back over the last several years, they've moved about 40 percent bilaterally on a real basis against the U.S. dollar. So we've seen some progress, but it's not enough. And we're going to keep pushing very hard to accelerate. We think they and others have taken on important obligations in the IMF and the WTO. And I think, you know, the president has said that he thinks it's very important for countries to honor those obligations. And we're going to continue working very hard on that goal.

MR. NAÍM: The gentleman over there, please.

Q: Thank you. Barry Wood, RTHK in Hong Kong. Could you give us a flavor of what the president was hearing from the other leaders about fiscal adjustment in the United States and how might his – how do you sense his views may have evolved as a result, in terms of the sequencing of stimulus versus deficit reduction?

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MS. BRAINARD: You know, I think that there was a general focus on U.S. growth. A lot of countries in the G-20 look to the U.S. as very important leader in the global economy. U.S. growth is very important to their growth. And generally speaking, I think there's a lot of support for the president's path forward, which is that we really do need short-term support for the recovery. And we need to make more progress, obviously, in the medium term, ensuring that our deficits are reduced and that we ultimately start to see debt put on a declining trajectory as a share of GDP. And as you know, he's put on a plan – put out a plan that tries to make that short-term/medium-term tradeoff.

As you also probably know, this is precisely the same prescription that the IMF has said makes the most sense, is most appropriate, is called for, for the United States at this point in our recovery. And so, you know, we're just going to keep plugging away, working with members of Congress to try to get as much done as we can, so that, you know, members of Congress also recognize that the most immediate short-term imperative is to provide that support to get Americans back to work.

[00:43:56]

MS. NAÍM: We'll ask the question in the back, please.

Q: Yeah. I'm Nathanial Santos (sp). I'm from – (inaudible) – Group. I have a question on development. Earlier you talked about development problems being proposed. May I know what are some of the plans –

MS. BRAINARD: I'm sorry, I'm just having a hard time hearing you.

Q: Sorry. I have a question on development. Earlier you talked about leaders discussing the development agenda in G-20. May I know what are some of those plans being discussed? And what were the deliverables and – for the next few years, especially in African countries? Thanks.

[00:44:41]

MS. BRAINARD: Well, let me just say, one of the areas that we've been pushing very hard on – food security. As you know, we have an overall integrated strategy across the administration to move forward on improving food security not just in the short run, but also to make sure that small-holder communities, for instance, have greater access to technologies and mechanisms to boost productivity so they can both better provide for themselves and also provide for their communities.

One of the mechanisms that we pioneered coming out of Pittsburgh, and that now has a number of very important international contributors, is the Global Agriculture and Food Security Program, which is, you know, a very innovative trust fund that has sitting around the table both donors from the private sector as well as from the public sector, donors from emerging markets as well as advanced economies, and beneficiary communities. And it's a – it's a program that allocates financing based on merit – how strong the proposals are. And it's had some really good success in allocating about $500 million in 12 countries. And we're going to keep working hard to broaden support for that.

[00:46:00]

On the area of infrastructure, you know, there was a high-level panel that was led by Tidjane Thiam and had James Harmon from the U.S. participating. They put forward some really nice recommendations that we strongly support on ensuring that poor countries can more quickly get infrastructure projects financed, in particular targeting the feasibility study stage, which is where the funding is often missing. And, you know, once the feasibility studies have been done, things – then there's funding in the multilateral development banks. But it's really that prior stage where we need to get some financing.

They put together some proposals that the G-20 embraced on that – and also with a big emphasis on regional infrastructure so that sub-regional groups in Africa, for instance, can build the rail lines, the ports, the telecoms, the payment systems that allow them to integrate and access international markets more efficiently and at scale.

MR. NAÍM: We run out of time. But in closing let me pose a last question. Yesterday or the day before yesterday, Christine Lagarde was in China and gave a speech in which she said that there is a risk of a lost decade for the global economy unless nations act together to counter threats to growth. What is the probability of that scenario, in your mind?

[00:47:28]

MS. BRAINARD: Look, we're just – we're just not going to let that happen. (Laughter.) President Obama is absolutely committed to doing what is needed here in the U.S. and to building the consensus to make sure that we accelerate the recovery, strengthen it. And you saw the G-20, we – you know, we're going to engage very actively – continue engaging very actively with our European partners, with the emerging markets. You saw China playing a – quite a constructive role in that context, recognizing the role that its own rebalancing, its own exchange rate adjustment can make.

So, you know, these international summits are just the kind of tip of the iceberg that occasionally you see. But the reality is, underlying those summits is a tremendous amount of work that is actively ongoing at all levels of government to engage with the kind of key countries that have the biggest impact on the system, and to make sure that we are each taking the actions that collectively will put us all in the strongest position to be an engine for growth for developing and emerging markets around the world.

[00:48:42]

MR. NAÍM: Lael Brainard, undersecretary for international affairs, thank you very much for taking the time for being with us. Please join me in thanking – (applause).

MS. BRAINARD: Thank you. Thank you. Thank you, Moisés. Thank you very much.

(END)